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CSBA Summary
Assembly Democrats Propose "The California Jobs Budget"

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Analysis from CSBA's Governmental Relations Department

Assembly Democrats have proposed an alternative to the Governor's May Revision that they refer to as "The California Jobs Budget." The Democratic alternative rejects the Governor's proposed cuts to K-12, child care, CalWORKS, Medi-Cal, In-Home Support Services, mental health services and other social support programs. According to legislative staff analysis, the proposal would retain 430,000 jobs in California, including tens of thousands of jobs for teachers and other school employees.

The downside of the proposal is that it does not make permanent adjustments to spending (more cuts) or revenues (higher taxes or fees) that are necessary to close the ongoing structural imbalance between revenues and expenditures. The upside from the perspective of K-12 education is that:

- It adds $4.2 billion to the K-12 budget, turning a proposed $2.4 billion reduction into a $1.8 billion increase.
- It rejects the Governor's proposal to manipulate the Proposition 98 guarantee downward and fully funds the guarantee at its current law level.
- The increased funding would restore the Governor's proposed revenue limit cuts, reduce the revenue limit deficit, and pay off the backlog of mandated cost reimbursements. Thereby, all of the new revenues would be unrestricted, giving districts complete flexibility over their use.
- It continues to fund mental health services, so the provision (and cost) of AB 3632 services would not be bounced back to schools.

Democrats argue that the retention of 430,000 jobs will stimulate California's economic recovery and that the resulting economic growth will help close the ongoing budget gap. Although it will not completely close the gap, it will buy time to address it without the devastating impact on schools and other programs that would result from the proposed cuts.

The basic architecture of the plan is as follows:

- The recently-enacted corporate tax breaks would be suspended (rather than repealed) for three years.

- The local sales tax would be increased by ¼ cent.

- Property tax revenues would be shifted from local government to schools. This would result in a state savings by offsetting state funding for schools and the combined sales tax increase/property tax shift would be revenue neutral for local government.

- The state sales tax would be reduced by ¼ cent. This offsets the local tax increase, resulting in no net change to taxpayers.

- A new oil severance tax would be assessed to offset the revenue lost from the reduction of the state sales tax. Some of the revenue from the oil severance tax would be used to target economic development and job creation in oil-producing areas of the state to offset the possible impact of the tax on jobs related to oil production.

- One-time revenue would be raised through securitization of Beverage Recycling Fees to the Beverage Container Recycling Fund. This involves selling securities to investors that would be paid off with revenue from future fee collections and some of the revenue from the oil severance tax.

The only portion of this package that requires a two-thirds vote is the temporary suspension of the corporate tax breaks. The oil severance tax does not require a two-thirds vote because it is rendered revenue neutral by combining it with the state sales tax reduction.

The package contains many elements that have previously been proposed by the Governor, including suspending the corporate tax breaks and assessing an oil severance tax. The securitization of recycling fees is similar in concept to his earlier proposal to securitize the state lottery, but without the potentially negative impact on school funding.

The Governor's initial reaction was to reject the plan, calling it "legal gymnastics." There is no official response yet from the Republicans or the Senate Democrats.